1978 Annual Report

Commonwealth Holiday Inns of Canada Limited

Aux actionnaires,

Le bilan d'exploitation non vérifié pour le deuxième trimestre qui s'est terminé le 30 avril 1978 continue de refléter une amélioration constante de la situation de la Compagnie. Le bénéfice net pour ce trimestre, bien qu'il ait été modeste, est le premier profit réalisé durant cette période depuis 1974. Ce qui semble être une réserve excessive pour les impôts sur les bénéfices du deuxième trimestre résulte d'une perte subie par une filiale, qui réduisit les bénéfices avant impôts et qui ne pouvait pas être déduite lors du calcul de l'impôt sur le revenu.

La perte pour les premiers six mois ($837,700) a été considérablement réduite comparativement à celle de la même période de l'année précédente ($1,540,600). En outre, toutes les grandes divisions de la Compagnie ont fait des progrès.

Les fonds autogénérés d'exploitation durant ce premier semestre se sont élevés à $4,858,500 ou 87 cents par action ordinaire (net après dividendes sur actions privilégiées) comparativement à $2,928,500 ou 52 cents par action ordinaire (net après dividendes sur actions privilégiées) pour la même période de l'an dernier. Le capital d'exploitation s'est amélioré de $1,802,200, c'est-à-dire qu'il est passé d'un déficit de $2,641,500 l'an dernier à un déficit de $839,300 cette année.

La Compagnie commence la deuxième moitié de son année financière avec un certain degré d'optimisme, particulièrement à la suite de l'élimination de la taxe sur les chambres d'hôtel en Ontario et au Québec, de la réduction de la taxe de vente provinciale et du taux du change actuel du dollar canadien. Ce sont là des facteurs qui devraient produire une augmentation du tourisme durant l'été.

Au nom du conseil d'administration

A. E. Shepherd
Président du conseil d'administration

Le 2 juin 1978

Inns in operation

CANADA
British Columbia
Vancouver - Broadway
Vancouver - City Centre

Alberta
Edmonton
Lethbridge

Saskatchewan
Saskatoon

Manitoba
Winnipeg - Downtown

Ontario
Kenora
Thunder Bay
Sault Ste. Marie
Sudbury
Windsor
Chatham
Sarnia
London - South
London - City Centre
London - City Centre Tower
Kitchener
Cambridge
Brantford
Hamilton
Burlington
St. Catharines
Oakville
Toronto - Downtown
Toronto - Don Valley
Toronto - Yorkdale
Toronto - East
Toronto - West
Toronto - Airport
Oshawa
Orillia
Barrie
Collingwood
Owen Sound
Huntsville
Peterborough
Kingston
Cornwall
Ottawa - Centre
Ottawa - Downtown

Quebec
Montreal - Longueuil
Montreal - Pointe Claire
Sherbrooke
Quebec City - Downtown

Nova Scotia
Halifax - Centre
Sydney

UNITED STATES
New York
Grand Island - Buffalo/Niagara

CARIBBEAN
Antigua
Barbados
Grenada
Port of Spain, Trinidad
St. Lucia

UNITED KINGDOM
Bristol
London - Marble Arch
London - Swiss Cottage
Newcastle
Plymouth
Slough/Windsor

Interim Report

for the six months
ended April 30, 1978

COMMONWEALTH Holiday Inns OF CANADA LIMITED

COMMONWEALTH Holiday Inns OF CANADA LIMITED

To the Shareholders

Unaudited operating results for the second quarter ended 30 April, 1978 reflect continued improvement for the Company. The net earnings reported for the quarter, although modest, mark the first time since 1974 that the period has returned a profit. What appears to be an excessive provision for tax on second quarter earnings results from a loss in a subsidiary which reduced pre-tax earnings and which could not be claimed in calculating taxes on income.

The loss for the first six months is also much reduced to $837,700 compared with a loss of $1,540,600 in the same period last year. All major divisions of the Company improved.

Cash flow from operations during the full half was $4,858,500 or 87 cents per common share (net of preferred dividends) compared with $2,928,500 or 52 cents per common share (net of preferred dividends) in the like period last year. Working capital has improved by $1,802,200 from a deficit last year of $2,641,500 to a deficit of $839,300 this year.

The Company views the remainder of the financial year with some optimism, particularly in light of the beneficial effects of the elimination of room tax in Ontario and Quebec, the reduction of provincial retail sales taxes, and the current exchange rate of the Canadian dollar, all of which should increase tourism in the summer months.

On behalf of the Board

A. E. Shepherd
Chairman of the Board

June 2, 1978

CONSOLIDATED STATEMENT OF EARNINGS

	Quarter Ended April 30th		Six Months Ended April 30th	
	1978	1977	**1978**	1977
Sales	**$45,303,700**	$40,501,200	**$90,828,200**	$80,461,600
Earnings (Loss) before Income Taxes	**152,300**	(973,700)	**(1,537,700)**	(2,910,600)
Income Taxes (Deferred)	**(142,000)**	420,000	**700,000**	1,370,000
Net Earnings (Loss) for Period	**10,300**	(553,700)	**(837,700)**	(1,540,600)
Per Common Share (Net of Preferred Dividends)	**(.02)**	(.13)	**(.19)**	(.33)
Cash Flow from Operations	**3,066,800**	1,753,400	**4,858,500**	2,938,500
Per Common Share (Net of Preferred Dividends)	**.56**	.31	**.87**	.52
Actual Common Shares Outstanding	**5,337,731**	5,317,731	**5,337,731**	5,317,731

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Six Months Ended April 30th	
	1978	1977
SOURCE OF FUNDS:		
Operations — consisting of:		
Net Loss for Period	**$ (837,700)**	$(1,540,600)
Add Non-Fund Items:		
Income Taxes Recoverable	**(700,000)**	(1,370,000)
Depreciation and Amortization	**6,436,000**	5,906,400
Other	**(39,800)**	(57,300)
	4,858,500	2,938,500
Mortgages and Other Long Term Loans	**8,259,900**	4,949,800
Sale of Shares	**55,000**	
Sales of Fixed Assets	**427,300**	57,000
	13,600,700	7,945,300
APPLICATION OF FUNDS:		
Purchase of Fixed Assets and Major Renovations	**10,012,400**	3,319,800
Investments	**428,900**	270,900
Deferred Costs and Franchises	**369,800**	182,000
Transportation Operating Authorities and Goodwill	**516,100**	310,500
Reduction of Long Term Debt	**6,890,000**	9,973,800
Minority Interest in Net Loss of Subsidiary for Period	**31,900**	53,300
Dividends on Preferred Shares	**200,000**	200,000
	18,449,100	14,310,300
Decrease in Working Capital	**(4,848,400)**	(6,365,000)
Working Capital At Beginning of Period	**4,009,100**	3,723,500
Working Capital Deficit At End of Period	**$ (839,300)**	$(2,641,500)

ÉTAT CONSOLIDÉ DES BÉNÉFICES

	Trimestre se term. le 30 avril		Semestre se term. le 30 avril	
	1978	1977	**1978**	1977
Ventes	**$45,303,700**	$40,501,200	**$90,828,200**	$80,461,600
Bénéfice (perte) avant impôts	**152,300**	(973,700)	**(1,537,700)**	(2,910,600)
Impôts sur le revenu (reportés)	**(142,000)**	420,000	**700,000**	1,370,000
Bénéfice (perte) net de l'exercice	**10,300**	(553,700)	**(837,700)**	(1,540,600)
Par action — net (après dividendes sur actions privilégiées)	**(.02)**	(.13)	**(.19)**	(.33)
Fonds autogénérés d'exploitation	**3,066,800**	1,753,400	**4,858,500**	2,938,500
Par action — net (après dividendes sur actions privilégiées)	**.56**	.31	**.87**	.52
Moyenne des actions ordinaires en suspens	**5,337,731**	5,317,731	**5,337,731**	5,317,731

ÉTAT CONSOLIDÉ DES CHANGEMENTS DE LA SITUATION FINANCIÈRE

	Semestre se term. le 30 avril	
	1978	1977
PROVENANCE DES FONDS:		
Exploitation — consistant en:		
Perte net de l'exercice	**$ (837,700)**	$(1,540,600)
Plus éléments ne comportant pas une sortie de fonds:		
Impôts recouvrables	**(700,000)**	(1,370,000)
Dépréciation et amortissement	**6,436,000**	5,906,400
Autres éléments	**(39,800)**	(57,300)
	4,858,500	2,938,500
Hypothèques et autres emprunts à long terme	**8,259,900**	4,949,800
Vente d'actions	**55,000**	
Vente d'immobilisations	**427,300**	57,000
	13,600,700	7,945,300
UTILISATION DES FONDS:		
Achat d'immobilisations et rénovations majeures	**10,012,400**	3,319,800
Placements	**428,900**	270,900
Frais reportés et concessions	**369,800**	182,000
Permis d'exploitation de transport et achalandage	**516,100**	310,500
Diminution de la dette à long terme	**6,890,000**	9,973,800
Intérêt minoritaire de la perte nette de la filiale pour l'exercice	**31,900**	53,300
Dividendes sur actions privilégiées	**200,000**	200,000
	18,449,100	14,310,300
Diminution du fonds de roulement	**(4,848,400)**	(6,365,000)
Fonds de roulement au début de l'exercice	**4,009,100**	3,723,500
Déficit du fonds de roulement à la fin de l'exercice	**$ (839,300)**	$(2,641,500)

1978 Annual Report

Commonwealth Holiday Inns of Canada Limited

Financial Highlights

Year ended October 31, 1978

	1978	1977
Sales	**$197,890,105**	$175,363,861
Earnings before income taxes	**$ 9,521,572**	$ 4,476,779
Provision for income taxes	**$ 5,016,000**	$ 2,159,000
Net earnings for the year	**$ 4,505,572**	$ 2,317,779
Dividends on preferred shares	**$ 400,000**	$ 400,000
Earnings available to common shareholders	**$ 4,105,572**	$ 1,917,779
Per share (net of preferred dividends)	**77¢**	36¢
Cash flow from operations*	**$ 21,601,395**	$ 15,343,553
Per share (net of preferred dividends)	**$ 3.97**	$ 2.81
Working capital	**$ 5,511,323**	$ 4,009,061
Additions to plant and equipment	**$ 26,909,960**	$ 13,552,652
Total assets at year end	**$194,624,345**	$171,414,043

* Cash flow consists of earnings from operations plus charges which do not require an outlay of funds.

On peut se procurer l'édition française de ce rapport en écrivant au Secrétaire,
Commonwealth Holiday Inns of Canada Limited, 304 York Street, London, Ontario N6B 1P8.

Corporate Offices
304 York Street,
London, Ontario N6B 1P8

Regional Offices
Holiday Inn Swiss Cottage,
128 King Henry's Road,
London NW3 3ST, England

Cockspur House,
Nile Street,
Bridgetown, Barbados

Sales Offices
CANADA
Montreal, Quebec
Toronto, Ontario
Ottawa, Ontario
London, Ontario
Calgary, Alberta
Vancouver, British Columbia

UNITED STATES
New York, New York
Buffalo, New York

EUROPE
London, England
Frankfurt, Germany

CARIBBEAN
Bridgetown, Barbados

Contents

Cover Photo —
Holiday Inn London City Centre Tower

Common and Preferred Shares
The common and preferred shares of the Company are listed on the Toronto and Montreal Stock Exchanges.

Valuation
For Canadian capital gains tax purposes, Valuation Day value of the common shares of the Company is $12.25. The preferred shares of the Company were issued subsequent to December 22, 1971 and therefore capital gain or loss is calculated on the actual share price.

Registrar and Transfer Agent
The Registrar for the common shares and the preferred shares is Canada Permanent Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary and Vancouver. The Transfer Agent for the common shares and the preferred shares is The Royal Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary and Vancouver.

Printed in Canada

Extensive recreational facilities including 67 indoor and outdoor swimming pools, many with saunas

Report to the Shareholders

On behalf of the Board of Directors, we submit the audited financial statements of the Company for the fiscal year ended 31 October, 1978.

Net earnings of $4,505,572 increased by 94% over the net earnings of the previous year and the cash flow from operations of $21,601,395 was 41% higher than that of the previous year. This year's earnings were 69% higher than the highest earnings ever reported by the Company in its history — those of 1974.

Subsequent to year end, the Board of Directors declared the first dividend ever paid on the Common shares. Subject to the normal considerations applicable from time to time to the declaration of dividends, the Company intends to pay a total of 20¢ per Common share during the year in quarterly instalments of 5¢, the first of which has been declared payable February 23, 1979.

The Company wrote off and charged against its pre-tax earnings aborted operations (principally the balance of its investment in the Montreal hotel which was not completed) and other discontinued operations (principally a leasehold Inn which had been unprofitable and was disposed of) at a cost of $1,013,228.

The sale of four Caribbean properties referred to in last year's Annual Report was not completed because certain required consents could not be obtained, but two of these hotels have since been sold at prices in excess of the book value to which they were written down in 1976. Caribbean business is much improved and the two hotels remaining are being operated profitably. We have not been able to sell these two nor do we have in prospect a sale for them at a price we consider they are now worth. Accordingly, we are resuming their operations as part of the Company's ordinary business and their results will be consolidated.

Canadian hotel operations were modestly profitable notwithstanding the depressed state of the economy in Canada and the oversupply of rooms for travellers in many major cities. The final quarter in Canada was considerably stronger than we expected in the early part of the year and, up to the time of writing, this upward trend seems to be continuing. A disproportionate part of this gain is in single occupancy, indicating increased business travel. Except for the cities of Toronto and Montreal, the Company did not benefit during 1978 from the expected increase in American tourism arising from the devaluation of the Canadian dollar.

In England, all the Company's six hotels continued to be very profitable. The transportation and express warehousing business of Charterways Co. Limited enjoyed a good year, contributing a little over 20% of the consolidated earnings.

The Company is building an hotel at Aberdeen in Scotland and another in Guelph, Ontario and rooms are being added to three of the Canadian Inns. At least one more hotel will be started this year in the United Kingdom and several Canadian management contracts, with or without equity participation by us, are being examined and some will be entered into.

The Company is changing its year end to 30 April and the next fiscal year will therefore comprise only six months. Because of the seasonal nature of the business, that six month period has historically returned a loss. We expect operations during that period of the year to be somewhat better than last year. One of the beneficial effects of this change is that shareholders will have a sense of how the Company is going to fare for the whole fiscal year after the first two quarters of the fiscal year are reported upon, instead of the present uncertainty about how profitable the year ending 31 October might be until it is almost over.

During the last fiscal year, the Company completed the purchase of hotels at Swiss Cottage, London and at Bristol in England, to which we were previously committed on long term leases. We consider these transactions to be very advantageous and expect enhanced profits hereafter as a result.

In this calendar year, we expect the Canadian hotels to be significantly more profitable as well as those of the Caribbean. The United Kingdom Inns should do at least as well as last year and probably better. Charterways should be about the same — it has expanded rapidly for three years and it is thought right to have a pause during the current year to digest what we have, unless of course some unforeseen opportunity should arise.

Holders of the Preferred shares of the Company are reminded that each of these shares is convertible into three Common shares of the Company until 5:00 p.m. 30 April, 1979, after which time each Preferred share is convertible into only two and one-half Common shares. Holders of the Preferred shares are further reminded that after April 29, 1979 such shares may, at the option of the Company, be redeemed at a price of $26.50 each.

The Company is well aware that the staff has done very well indeed to achieve these results in the face of economic conditions which are not robust and we thank them on behalf of the Board.

February 23, 1979

Chairman of the Board and
Chief Executive Officer

President and
Chief Operating Officer

Good food at any one of our 108 fine restaurants and coffee shops

Consolidated balance sheet

October 31, 1978 (with comparative amounts for 1977)

ASSETS	1978	1977
Current:		
Cash	**$ 15,609,117**	$ 10,854,382
Accounts receivable	**11,192,674**	9,168,895
Inventories — *Note 1*	**3,174,946**	2,785,757
Prepaid expenses	**4,055,814**	3,625,799
	34,032,551	26,434,833
Investments — *Note 2*	**6,660,756**	5,757,294
Fixed — at cost — *Notes 3 and 12*		
Land	**7,610,201**	7,583,141
Buildings, leaseholds, etc.	**112,682,556**	98,387,976
Furnishings and equipment	**36,482,485**	33,443,840
Transportation equipment	**20,240,151**	19,276,283
	177,015,393	158,691,240
Less accumulated depreciation and amortization	**39,637,947**	34,292,572
	137,377,446	124,398,668
Major renovations (net of amortization to date of $3,821,394 in 1978 and $2,621,011 in 1977)	**8,223,191**	5,852,261
	145,600,637	130,250,929
Deferred costs and other assets — *Note 4*		
Opening and development costs	**697,221**	1,483,916
Cost of borrowing	**1,680,317**	1,672,284
Franchises — Holiday Inns, Inc.	**1,227,472**	1,456,324
Transportation operating authorities and goodwill	**4,725,391**	4,358,463
	8,330,401	8,970,987
	$194,624,345	$171,414,043

(See accompanying notes)

LIABILITIES AND SHAREHOLDERS' EQUITY	1978	1977
Current Liabilities:		
Accounts payable and accrued charges	**$ 19,232,756**	$ 16,383,531
Taxes payable	**1,656,717**	1,694,006
Long term debt payable within one year	**7,631,755**	4,348,235
	28,521,228	22,425,772
Long term debt — *Note 5*	**112,494,405**	104,444,507
Deferred gains		
(net of amortization to date of $523,775 in 1978 and $444,281 in 1977)	**1,111,858**	1,191,352
Deferred income taxes — *Note 6*	**22,776,869**	17,761,232
Minority interest in subsidiary company	**1,315,713**	1,357,980
Shareholders' equity:		
Capital — *Note 7*		
Authorized:		
800,000 preferred shares of $25 par value each		
7,425,000 common shares of no par value		
Issued:		
200,000 8% cumulative, redeemable convertible preferred shares — Series A	**5,000,000**	5,000,000
5,339,231 common shares (5,317,731 in 1977)	**5,383,231**	5,317,731
Contributed surplus	**4,304,109**	4,304,109
Retained earnings — *Note 8*	**13,716,932**	9,611,360
	28,404,272	24,233,200
	$194,624,345	$171,414,043

On behalf of the Board

Director

Director

Consolidated statement of earnings

Year ended October 31, 1978 (with comparative amounts for 1977)

	1978	1977
Sales and other revenues		
Hotel division	**$171,814,613**	$152,545,618
Transportation division	**26,075,492**	22,818,243
	$197,890,105	$175,363,861
Earnings from operations before charges as set out below	**$ 51,508,754**	$ 42,660,487
Rent	**17,164,199**	16,703,356
Depreciation and amortization	**9,777,272**	8,563,296
Write off of fixed assets relating to aborted and discontinued operations	**1,013,228**	350,000
Amortization of deferred costs	**1,369,180**	1,700,520
Interest (including interest on short term debt of $53,196 in 1978 and $142,228 in 1977)	**12,663,303**	10,866,536
	41,987,182	38,183,708
Earnings before income taxes	**9,521,572**	4,476,779
Income taxes	**5,016,000**	2,159,000
Net earnings for year	**$ 4,505,572**	$ 2,317,779
Earnings per share — *Note 13*	**$ 0.77**	$ 0.36

(See accompanying notes)

Consolidated statement of retained earnings

Year ended October 31, 1978 (with comparative amounts for 1977)

	1978	1977
Balance beginning of year	**$ 9,611,360**	$ 8,193,581
Net earnings for year	**4,505,572**	2,317,779
	14,116,932	10,511,360
Dividends on preferred shares	**400,000**	400,000
Purchase of share warrants		500,000
	400,000	900,000
Balance end of year	**$13,716,932**	$ 9,611,360

Consolidated statement of contributed surplus

Year ended October 31, 1978 (with comparative amounts for 1977)

	1978	1977
Balance beginning and end of year	**$ 4,304,109**	$ 4,304,109

(See accompanying notes)

Consolidated statement of changes in financial position

Year ended October 31, 1978 (with comparative amounts for 1977)

	1978	1977
Source of funds:		
Operations - consisting of:		
Net earnings for year	**$ 4,505,572**	$ 2,317,779
Add non-fund items —		
Deferred income taxes	**5,016,000**	2,159,000
Depreciation, amortization and write off of fixed assets	**12,159,680**	10,613,816
Other	**(79,857)**	252,958
	21,601,395	15,343,553
Mortgages and other long term loans	**18,229,903**	15,709,579
Reduction of investment in Allied Innkeepers (Bermuda) Limited	**1,653,917**	
Sale of fixed assets	**769,752**	195,240
Issue of shares	**65,500**	
	42,320,467	31,248,372
Application of funds:		
Term deposit receipt pledged as security for long term debt	**2,000,000**	
Other investments	**557,379**	1,463,059
Purchase of fixed assets and major renovations	**26,909,960**	13,552,652
Deferred costs	**291,738**	260,731
Transportation operating authorities and goodwill	**436,856**	1,024,482
Reduction of long term debt	**10,180,005**	13,709,137
Minority interest in net loss of subsidiary for year	**42,267**	52,774
Purchase of share warrants		500,000
Dividends on preferred shares	**400,000**	400,000
	40,818,205	30,962,835
Increase in working capital	**1,502,262**	285,537
Working capital beginning of year	**4,009,061**	3,723,524
Working capital end of year	**$ 5,511,323**	$ 4,009,061

(See accompanying notes)

Notes to the consolidated financial statements
October 31, 1978

1. Significant accounting policies

Principles of consolidation
The consolidated financial statements include the accounts of the company, its wholly owned subsidiaries (principally Charterways Co. Limited) and its partly owned subsidiary, Allied Inn Keepers of Trinidad and Tobago Limited (65%). The accounts of Allied Innkeepers (Bermuda) Limited have not been consolidated based on the company's decision to liquidate its investment in this company — see Note 2. All acquisitions of subsidiary companies have been accounted for by the purchase method and all material inter-company transactions have been eliminated in consolidation.

The minority interest in the loss of the partly owned subsidiary (Allied Inn Keepers of Trinidad and Tobago Limited) has been reflected in the accompanying consolidated statement of earnings as a reduction of rent expense related to the property leased from this subsidiary (1978 — $42,267; 1977 — $52,774).

Foreign exchange
The accounts of foreign subsidiaries and those of the company to be settled in foreign currencies are translated into Canadian dollars at current rates of exchange except for non-current assets, long term debt and depreciation and amortization which are translated at historical rates of exchange and sales and expenses (other than depreciation and amortization) which are translated at average rates of exchange for the year. Losses which result from translation are written off against consolidated income and translation gains are deferred except to the extent of such losses previously recorded. Realized gains or losses on transactions in foreign currencies are recorded in income.

Inventories
Inventories are valued at the lower of cost, determined on a first in, first out basis, and replacement cost. Furnishing contracts in progress are valued at contract costs incurred, net of billings on account and adjusted for income earned on a percentage of completion basis. Particulars are as follows:

	1978	1977
Food and beverage	$1,563,573	$1,344,899
Hotel operating supplies, etc.	1,176,775	1,019,185
Transportation — fuel and replacement parts	350,631	375,418
Furnishing contracts in progress	83,967	46,255
	$3,174,946	$2,785,757

Fixed assets
During the construction of any of its Inns, the company follows the policy of capitalizing interest and property taxes relating to owned Inns, and costs incurred which are not paid for by the owners relating to leased Inns. Additionally, the company capitalizes rent, interest, insurance and property taxes and reduces depreciation and amortization during a period not exceeding twelve months following the date on which rooms at newly constructed Inns are first available to be rented for both owned and leased Inns (subject to predetermined maximum amounts) in accordance with a scale established by reference to occupancy. No amounts have been capitalized under these policies in 1978 or 1977. In both cases, expenditures in respect of leased Inns are carried as leasehold costs.

In respect of major dispositions of hotel assets and all transportation assets, the cost and accumulated depreciation relating thereto are eliminated from the accounts and gains or losses are reflected in income. Gains or losses on the disposal of school buses and highway coaches, which occur in the normal course of business, are classified to depreciation expense.

The cost of major renovation programs at the Inns, consisting primarily of replacement of furnishings and equipment and major maintenance, is deferred and amortized over a sixty month period. The cost of improvements is capitalized. Normal repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on a straight-line basis (except as otherwise shown) over the estimated useful lives of the various assets at the following annual rates:

Hotel assets:		
Buildings and leaseholds	*2½ %	
Paving	4	
Furnishings and equipment	9	
Swimming pools	10	
Transportation assets:		
School buses	13⅓ %	
Highway coaches	8⅓	
Other depreciable assets —		
Buildings	5 - 10%	(diminishing balance)
Equipment	20	(diminishing balance)
Other automotive equipment	various appropriate rates	
Improvements to leased premises	varying rates over terms of leases	

*A higher rate is applied to leaseholds, if, at the time of the expenditure, the remaining term of the lease plus one renewal period is less than 40 years.

Deferred costs and other assets
Costs incurred in connection with the development and opening of Inns are deferred and amortized over the first sixty months of operations. Costs incurred in connection with obtaining long term debt are deferred and amortized over the term of the respective borrowing. Franchises are amortized over twenty years (under a policy which commenced in 1976).

Transportation operating authorities and goodwill are carried at cost. During the year, the company completed the purchase of several school bus operations which included operating authorities and goodwill at a cost of $436,856. Transportation operating authorities and goodwill as at August 31, 1975 are not amortized and subsequent purchases are amortized on a straight-line basis over forty years.

Deferred gains
Gains realized by the company on sale and leaseback transactions are deferred and transferred to income over the terms of the applicable leases.

Income taxes
Income taxes are provided on the basis of accounting income. Income taxes not currently payable, resulting from claiming for income tax purposes deferred costs as incurred, capital cost allowances in excess of depreciation and amortization and other timing differences, are credited to deferred income taxes. This account will be charged in those future years, when, as a result of the reversal of these timing differences, income taxes actually payable will be greater than the amounts provided for in those years.

2. Investments

	1978	1977
Term deposit receipt pledged as security for long term debt	$ 2,000,000	
Non-current debentures and notes receivable	1,349,121	$ 1,134,859
Investment in shares, debentures and advances of Allied Innkeepers (Bermuda) Limited	10,333,722	11,987,639
Other related debentures and costs	1,126,205	783,088
	11,459,927	12,770,727
Less reduction in carrying value	8,148,292	8,148,292
	3,311,635	4,622,435
	$ 6,660,756	$ 5,757,294

Comparative amounts for 1977 have been reclassified to conform with presentation adopted in 1978.

In 1976, the company decided to liquidate its investment in Allied Innkeepers (Bermuda) Limited and, at that time, wrote down the carrying value of that investment to estimated realizable value and made provision for the estimated carrying cost for the period pending liquidation. In the opinion of management, the reduction in carrying value should be adequate to provide for all losses to be incurred on the ultimate liquidation of this investment.

The agreement of sale respecting the company's investment in Allied Innkeepers (Bermuda) Limited referred to in 1977 was not completed; however, during the year, the Inn in Antigua was sold and subsequent to the end of the year the Inn in St. Lucia was sold. Funds made available from sales of Inns and operations are being transferred to reduce the company's investment.

3. Fixed assets

A major portion of the real estate, furnishings and equipment and transportation equipment is pledged to secure mortgages and other long term debt.

Leasehold costs (net of accumulated amortization) carried in the accompanying consolidated financial statements amount to $10,566,000 ($12,572,000 in 1977).

4. Deferred costs and other assets

Costs and accumulated amortization to date are set out below:

	Cost	Accumulated amortization	Unamortized balance October 31 1978	1977
Opening and development costs	$ 2,317,895	$1,620,674	$ 697,221	$1,483,916
Cost of borrowing	2,267,643	587,326	1,680,317	1,672,284
Franchises	1,459,472	232,000	1,227,472	1,456,324
Transportation operating authorities and goodwill	4,818,851	93,460	4,725,391	4,358,463
	$10,863,861	$2,533,460	$8,330,401	$8,970,987

Deferred costs which are fully amortized are eliminated from the accounts.

5. Long term debt

Long term debt outstanding at October 31, 1978 and 1977 consists of:

	1978 Payable within one year	1978 Amount	1977
(a) Real estate mortgages payable: 7.45% - Prime + 2½% maturing on varying dates from 1979 to 2006	$6,127,343	$95,514,527	$87,388,297

Including payable in foreign currency
U.S. $49,376,872 (Cdn. $49,940,559)
T.T. $ 4,649,906 (Cdn. $ 2,231,490)
U.K. £ 3,707,637 (Cdn. $ 8,934,329)

	1978 Payable within one year	1978 Amount	1977
(b) Specific charge debt on transportation equipment: 9¾% - 13¼%	116,116	10,403,661	9,369,133
(c) Secured notes payable: 6⅞% secured notes maturing June 30, 1991, repayable semi-annually by payments of blended principal and interest of $428,000 U.S. (secured by mortgages and first floating charge on certain properties) ($7,275,664 U.S.)	422,840	7,467,229	7,756,730
Deduct amount of secured notes assumed by Allied Innkeepers (Bermuda) Limited ($1,480,736 U.S.) for which the company remains directly liable	86,056	1,519,723	1,578,642
	336,784	5,947,506	6,178,088
(d) Sinking fund debentures payable: 6% - 7½% debentures maturing in 1979 and 1980	140,000	190,000	330,000
(e) Other secured debt: 11⅝% - prime + 2% Repayment terms extending to 1983	500,000	6,427,200	3,567,784

Including payable in foreign currency
U.S. $4,000,000 (Cdn. $3,927,200)

	1978 Payable within one year	Amount	1977
(f) Unsecured notes payable: 0% - 10% maturing on varying dates from 1981 to 1987	411,512	1,643,266	1,959,440
Including payable in foreign currency U.K. £ 379,956 (Cdn. $683,922)			
	$7,631,755	120,126,160	108,792,742
Less payable within one year		7,631,755	4,348,235
		$112,494,405	$104,444,507

Long term debt repayments each year for the next five years are as follows:

1979	$ 7,631,755	1982	$24,298,103
1980	13,896,895	1983	6,230,202
1981	13,293,540		

In the above table, the normal instalment payments due in 1979 of $2,744,753 of specific charge debt referred to below are shown as due in the next following year (1980).

Real estate mortgages:
Certain mortgages contain participation clauses which may increase interest payable thereon.

Specific charge debt:
Specific charge debt on transportation equipment includes $5,685,382 which is payable under an agreement with a finance institution whereby the transportation subsidiary is not required to make monthly contractual instalments until after its 1979 fiscal year and $4,261,356 due to bankers on which the company may delay monthly repayments to a maximum cumulative period of twelve months. In the accompanying consolidated financial statements no amount is included as due within one year in respect of these amounts.

Additional security:
Included in long term debt are amounts due to the company's principal banker in respect of which the company has pledged its accounts receivable and lodged as collateral security floating charge debentures totalling $16,000,000 and $7,500,000 on its assets and those of Charterways Co. Limited respectively and a first floating charge on the company's United Kingdom assets.

6. Deferred income taxes

Deferred income taxes were increased during the year by $5,015,637 representing the total amount of income taxes determined on the basis of accounting income for the year, less $363 taxes actually paid by a subsidiary.

7. Capital

The preferred shares — Series A, are redeemable after April 29, 1979 at their par value plus a premium of $1.50 if redeemed prior to April 29, 1982; $1.00 if redeemed thereafter and prior to April 29, 1985; $.50 if redeemed thereafter and prior to April 29, 1988; and without premium thereafter and will be convertible into common shares on or prior to April 30, 1979 on the basis of 3 common shares for each preferred share and thereafter to April 30, 1984 on the basis of 2½ common shares for each preferred share.

During the year, as a result of the exercise of employee share options, 21,500 common shares were issued for $65,500 cash.

As at October 31, 1978, common shares are reserved as follows:

For issuance under share purchase warrants at $8.00 per share (expiring November 1, 1984)		250,026
For issuance to employees:		
at $7.00 per share (expiring December 16, 1983)	25,800	
at 10% below market price at date option is granted	2,700	28,500
For issuance to preferred shareholders under conversion privileges attaching to the preferred shares — Series A		600,000
		878,526

8. Restrictions on dividends

The trust indentures relating to the sinking fund debentures and the preferred shares — Series A contain various restrictions relating to the payment of dividends (other than dividends on the preferred shares — Series A), the redemption, cancellation or retirement of the company's shares or any other such distributions. As at October 31, 1978, under the most restrictive provision, $4,300,000 was available for any such distributions.

9. Contingent liabilities and commitments

The company is contingently liable with respect to guarantees which at October 31, 1978 amount to $352,130 and with respect to guarantees of lease payments relating to two Caribbean Inns over the next sixteen years amounting to $9,400,000. These amounts are in addition to certain debt assumed by Allied Innkeepers (Bermuda) Limited which has been excluded from the consolidated balance sheet but in respect of which the company remains directly liable as referred to in note 5 (c).

The company is subject from time to time to various claims and disputes. As at October 31, 1978, there are no unsettled claims or disputes of a material nature against the company which have not been provided for or which, in the opinion of management cannot be settled without material cost.

The cost to complete Inns under construction and to complete certain asset purchases of transportation operations to which the company is committed, subject to regulatory approval, amounts to $11,600,000, no portion of which is reflected in the accompanying consolidated financial statements except for deposits relating to the purchase of the transportation operations of approximately $378,000 which will be applied to reduce the purchase price at date of closing. The company has arranged for financing in respect of these commitments.

10. Long term leases and fees

The company has entered into agreements to lease properties which are operated as Inns (including land leases in the United Kingdom) and as transportation terminals for periods varying from 2 to 124 years at total minimum rentals for the remaining terms of the leases of approximately $192,200,000 (including amounts payable in foreign currencies which are translated at current rates of exchange). Total minimum fixed rentals per year as at October 31, 1978 approximate $10,300,000. Rentals, which are determined as a percentage of revenues with no minimum amounts, are excluded from the calculation of the above amounts. In the case of certain leases, increased rentals are payable if Inn revenues exceed specified amounts. Certain leases provide the company with options to purchase the leased properties.

Under its agreements with Holiday Inns, Inc. the company is required to pay royalties and assessments for advertising and other services which currently amount to approximately $4,800,000 annually. It has also entered into miscellaneous equipment leases extending to 1986 in respect of which total rentals for the remaining terms of the leases approximate $6,500,000.

11. Statutory information

The aggregate direct remuneration paid or payable by the company to directors and senior officers amounted to $848,800 for the year ended October 31, 1978 and $804,600 in 1977. This remuneration includes directors' fees of $20,300 for 1978 and $19,000 for 1977.

The liability in respect of past service pension costs not provided for in the accompanying consolidated financial statements as at October 31, 1978 amounts to approximately $300,000 (based on the present value of future payments). The company intends to fund this liability by annual payments over the next eight to eleven years.

12. Appraisal value of real estate

Fixed assets (including major renovations) relating to the company's owned Inns, which are included in the accompanying consolidated balance sheet at a net book value of $98,400,000, have an appraisal value of $157,000,000. These values are based on appraisals of North American properties during 1976 and one United Kingdom property during 1977 by Garth Webb & Associates Ltd. with subsequent additions at cost and remaining United Kingdom properties by John Graham & Co. during 1978. Appraisal values do not take into account the income tax liability which would result from any sales of the company's owned Inns.

13. Earnings per share

Earnings per common share, after taking into account dividends on preferred shares, have been calculated on the weighted average number of common shares actually outstanding during the year. Fully diluted earnings per share have not been shown as the difference from earnings per share is immaterial.

14. Anti-Inflation legislation

As of October 14, 1978 the company is no longer subject to the Canadian government's anti-inflation legislation relating to the restrictions of shareholder dividends. The operations of the company in Canada continue to remain subject to the controls relating to prices and profit margins until December 31, 1978 and subject to the restrictions relative to controlling levels of employee compensation to varying dates until December 31, 1978.

Prices and profit margin restraints continue to apply to the company's operations in the United Kingdom.

AUDITORS' REPORT

To the Shareholders of
Commonwealth Holiday Inns of Canada Limited.

We have examined the consolidated balance sheet of Commonwealth Holiday Inns of Canada Limited as at October 31, 1978 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

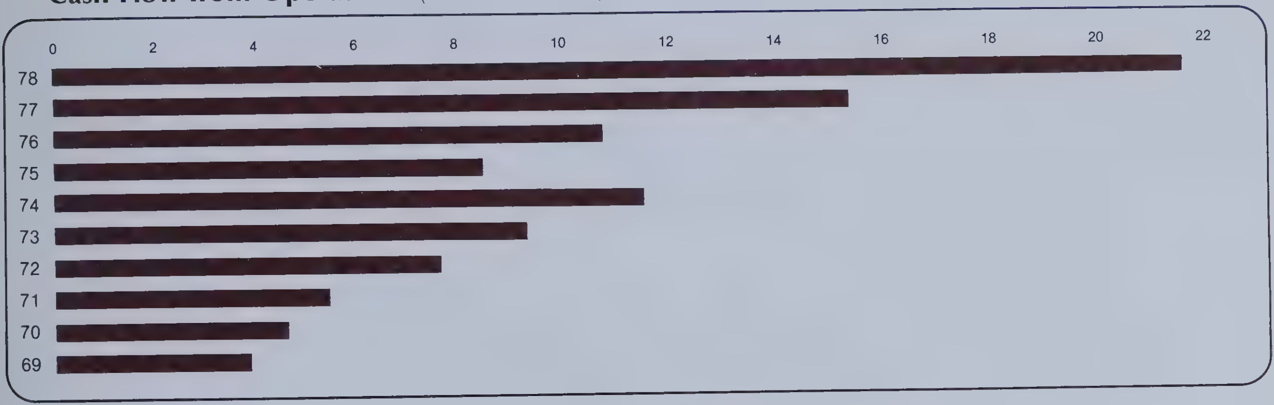
In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
December 18, 1978.

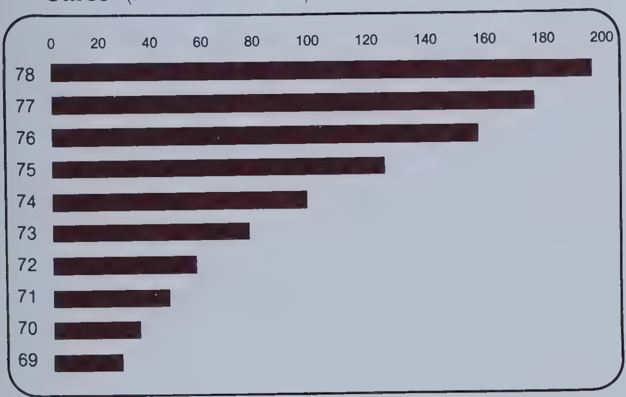
Clarkson, Gordon & Co.
Chartered Accountants.

Ten Year Review

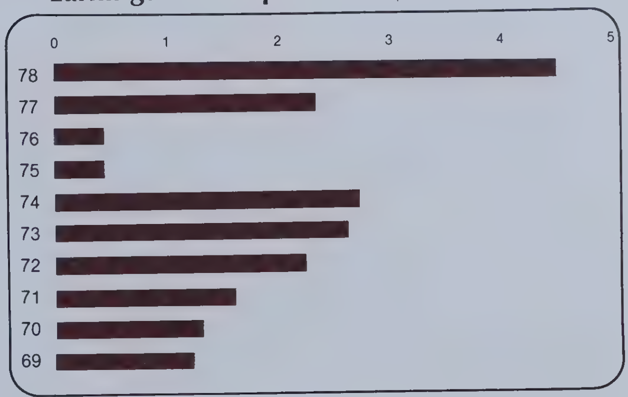
Cash Flow from Operations (millions of dollars)



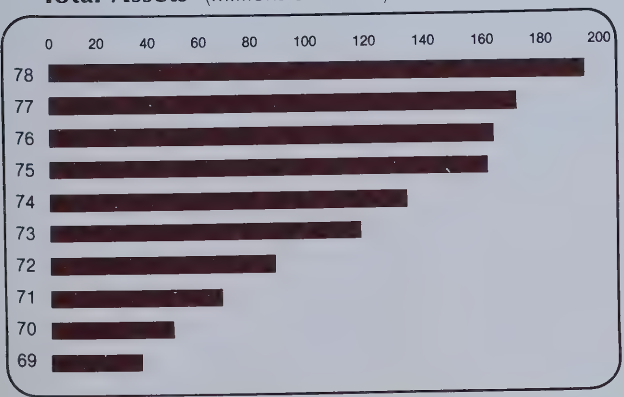
Sales (millions of dollars)



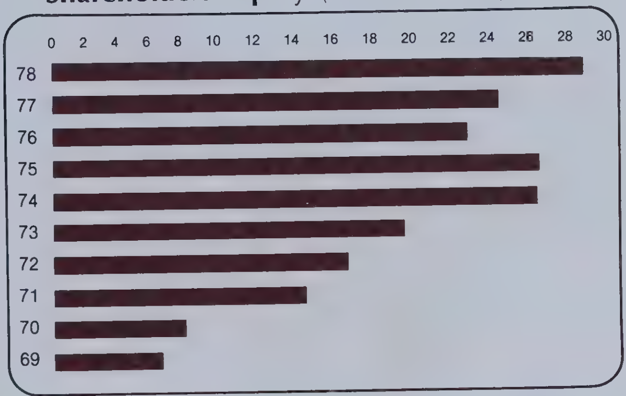
Earnings from Operations (millions of dollars)



Total Assets (millions of dollars)



Shareholders' Equity (millions of dollars)



Ten Year Review

	1978	1977	1976	1975
Results for the year				
Sales	**$197,890,105**	$175,363,861	$156,374,192	$120,694,690
Earnings from operations*	**4,505,572**	2,317,779	425,101	412,869
Cash flow from operations**	**21,601,395**	15,343,553	10,654,597	8,521,979
Depreciation and amortization	**12,159,680**	10,613,816	9,376,390	6,007,494
Additions to plant and equipment	**26,909,960**	13,552,652	9,834,346	19,558,897
Earnings per common share (net of preferred dividends)	**77¢**	36¢	—	—
Year end position				
Working capital	**$ 5,511,323**	$ 4,009,061	$ 3,723,524	$ (656,086)
Fixed assets at cost	**189,059,978**	167,164,512	155,696,553	148,383,251
Total assets	**194,624,345**	171,414,043	162,765,896	160,361,169
Long term debt	**112,494,405**	104,444,507	102,444,065	95,405,537
Shareholders' equity	**28,404,272**	24,233,200	22,815,421***	26,290,320
General statistics				
Preferred shares outstanding	**200,000**	200,000	200,000	200,000
Common shares				
— outstanding	**5,339,231**	5,317,731	5,317,731	5,317,731
— reserved for conversion and options	**878,526**	900,026	1,150,026	1,150,026
— total outstanding and reserved	**6,217,757**	6,217,757	6,467,757	6,467,757
Inns in operation (actual at year end)	**58**	59	66	65
Rooms in operation (actual at year end)	**12,254**	12,331	13,746	13,590
Current ratio	**1.19**	1.18	1.19	0.96
Long term debt/equity ratio	**2.20**	2.49	2.66	2.20

*Before dividends on preferred shares and extraordinary item in applicable years.
**Cash flow consists of earnings from operations plus charges which do not require an outlay of funds.
***After write-down of investment in Allied Innkeepers (Bermuda) Limited. See Note 2 to consolidated financial statements.

1974	1973	1972	1971	1970	1969
$ 99,691,716	$75,909,304	$56,842,588	$43,023,663	$33,258,870	$25,431,843
2,660,114	2,640,594	2,165,200	1,590,265	1,329,927	1,176,597
11,550,997	9,412,941	7,659,588	5,499,835	4,620,120	3,876,526
5,343,665	3,587,535	2,785,576	2,183,758	1,850,381	1,378,633
20,115,644	28,523,564	22,989,803	18,460,338	10,953,791	10,996,052
41¢	50¢	41¢	36¢	32¢	47¢
$ 2,128,202	$ 62,027	$ 1,955,621	$ 1,996,390	$ 715,779	$ 183,514
114,216,895	100,035,544	75,103,854	58,823,319	43,803,822	32,918,085
133,335,462	119,591,737	89,516,127	66,242,716	49,571,132	36,030,849
73,560,663	70,568,181	54,322,311	38,725,915	32,332,548	22,593,209
26,240,367	19,337,197	16,593,178	14,399,365	8,065,857	6,783,473
200,000	—	—	—	4,000	4,150
5,317,731	5,317,731	5,307,881	5,305,156	2,427,013	2,411,488
1,150,026	550,026	564,676	517,401	3,964,237	3,959,137
6,467,757	5,867,757	5,872,557	5,822,557	6,391,250	6,370,625
54	46	39	34	27	23
10,909	9,255	7,400	5,754	4,164	3,499
1.13	1.00	1.21	1.34	1.15	1.05
1.80	2.29	2.21	1.94	2.68	2.42

Directors and Officers

Directors

Ernest B. Fletcher*
President and Chief Operating Officer
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Geno F. Francolini†
President
Livingston Industries Limited,
Tillsonburg, Ontario

Frederick W. P. Jones*†
Financial Consultant
London, Ontario

Hon. John P. Robarts, P.C., Q.C.†
Barrister and Solicitor
Partner of Stikeman, Elliott, Robarts and Bowman,
Toronto, Ontario

Albert E. Shepherd*†
Chairman and Chief Executive Officer
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

David B. Weldon*†
Chairman
Midland Doherty Limited,
Toronto, Ontario

*Member of the Executive Committee
†Member of the Audit Committee

Corporate Officers

Albert E. Shepherd
Chairman of the Board and
Chief Executive Officer

Ernest B. Fletcher
President and Chief Operating Officer

Robert A. Rubinoff
Executive Vice President

Edward C. Campbell
Senior Vice President,
Operations Administrator

Bruce R. Dodds
Senior Vice President,
Chief Financial Officer

Raymond R. Yelle
Senior Vice President — Europe

Philip Eprile
Vice President, Design and Planning

W. Harvey Gleason
Vice President and Controller

Charles H. King
Vice President and Secretary

John C. Logan
Vice President, Project Development

Jeanette M. Stevens
Assistant Vice President and
Assistant Secretary

Division Vice Presidents

Loris Arevian
Manager of Caribbean Operations

Alan Bolam
Assistant Controller

William G. Campbell
Director of Security

Charles A. Cline
Director of Personnel

Howard M. Field
Financial Controller, Europe

James A. Havers
Regional Director, Central Canada

William R. Janzen
Director of Information Systems

Gordon R. Langford
District Director

Anthony G. Malloy
Director of Internal Audit

Ian M. Marshall
Director of Advertising and
Public Relations

John C. Peskett
Director of Sales

John B. Pleasence
District Director

Frederick W. Sillett
Director of Insurance,
Assessments and Benefits

Joseph V. Slomka
District Director

Theodore Smits
Director of Construction,
Planning and Maintenance

Henning Svendsen
District Director

Joseph W. Whitfield
General Manager, Food and Beverage

George J. Zaritzky
Director of Financial Planning

Assistant Vice Presidents

William C. Anderson
Sales

Shirley M. Smith
Personnel Manager

John Vinkenbrink
Regional Director, Western Canada

Neil C. Winter
Sales

Other Executives

District Directors — Canada
Anthony Miele

District Directors — United Kingdom
Michael Beckley
Fritz Ternofsky

Robert J. Adley
Director of Marketing, Europe

Alan Peters
Comptroller, Caribbean

Philip Eprile Associates Limited
Associated Innkeepers Supply Company

Philip Eprile, President

Kenneth Pharoah, Vice President
and General Manager

Syd Sobel, Vice President,
Director of Contract Food Facilities

Olive Williamson
Assistant Vice President,
Director of Renovations

Allied General Contractors

Syd Sobel, Vice President and
General Manager

Charterways Co. Limited

Bruce R. Dodds
Chairman

Geoffrey P. Davies
President and Chief Executive Officer

Lloyd D. Monteith
Vice President, Finance

Gary Wilson
Vice President, Operations

Ian M. Buckham
Controller

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Vancouver - City Centre/Harbourside, *George Hayes*

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Edmonton, *Michael Whittaker*
Lethbridge, *Robin Cameron*

Saskatchewan
Saskatoon, *Mijo Kralevic*

Manitoba
Winnipeg - Downtown, *Ernie Heiland*

Ontario
Kenora, *George Sheldon*
Thunder Bay, *Hans Acht*
Sault Ste. Marie, *Alexander Zikakis*
Sudbury, *Maurice Rouleau*
Windsor, *John Freier*
Chatham, *Graham Rennie*
Sarnia, *Ralph Sabourin*
London - South, *Martin Larkin*
London - City Centre, *Robert Perrin*
London - City Centre Tower, *Robert Perrin*
Kitchener, *Garth Lee*
Cambridge, *Duncan Whillans*
Brantford, *Ted Isaac*
Hamilton, *Terry O'Brien*
Burlington, *Peter Pappoulas*
St. Catharines, *Don Beard*
Oakville, *Alex Lloret*
Toronto - Downtown, *Dokse Perklin*
Toronto - Don Valley, *Bernhard Kainer*
Toronto - Yorkdale, *Patrick Dignan*
Toronto - East, *Doug Escott*
Toronto - West, *Peter Pattera*
Toronto - Airport, *Greg Lambert*
Oshawa, *Otto Friedman*
Orillia, *Rick Blum*
Barrie, *John Clarke*
Collingwood, *Robert Lauzon*
Owen Sound, *Chris Spolarich*
Huntsville, *Doug Pincoe*
Peterborough, *Monir Nasif*
Kingston, *Randy Pringle*
Cornwall, *Paul Stephens*
Ottawa - Centre, *Ralph Schmitz*
Ottawa - Downtown, *Dave Wright*

Quebec
Montreal - Longueuil, *Daniel Blachut*
Montreal - Pointe Claire, *Benito Migliorati*
Sherbrooke, *Gerard St. Laurent*
Quebec City - Downtown, *Jean Daviault*

Nova Scotia
Halifax - Centre, *Ingo Koch*
Sydney, *Greg Gouthreau*

UNITED STATES
New York
Grand Island - Buffalo/Niagara *Paul Verciglio*

INNKEEPER AT LARGE
Michael Prochazka

CARIBBEAN
Antigua, *Peter Van Alen*
Barbados, *John Wood*
Grenada, *Maurice Ribordy*
Trinidad, *Charles Roberts*

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Bristol, *Horst Berl*
London - Marble Arch, *Jan Hubrecht*
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Plymouth, *Peter Nannestad*
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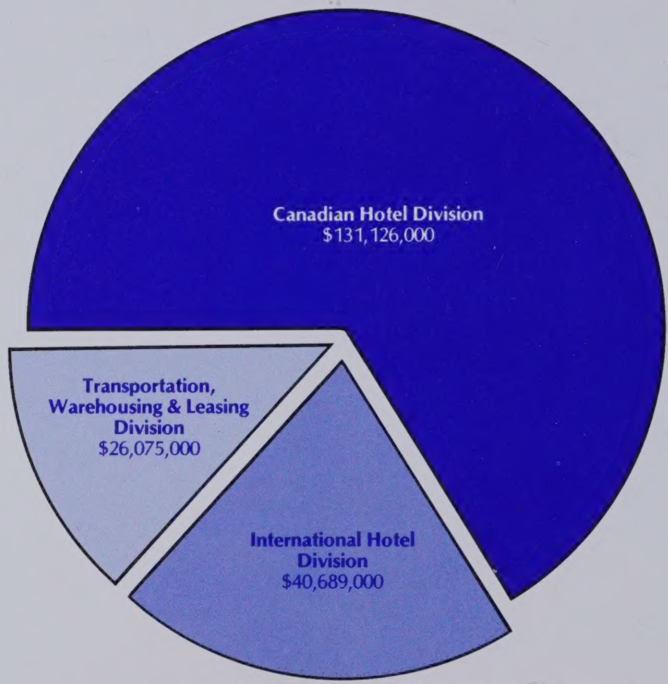
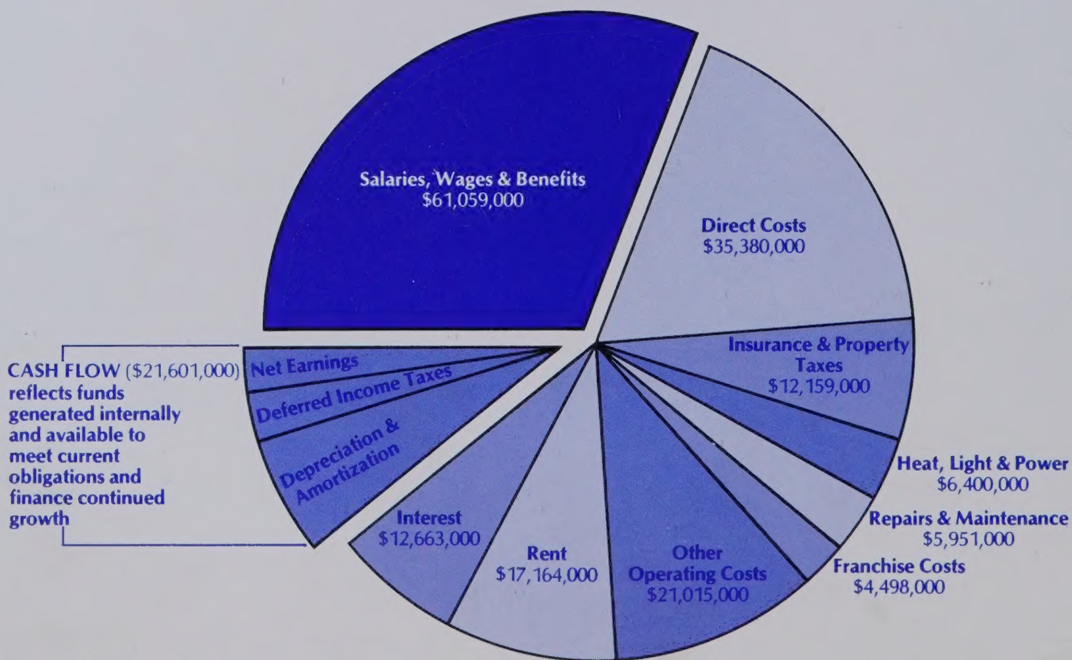
Revenue by Source — 1978



Expense Components and Cash Flow — 1978



COMMONWEALTH Holiday Inns OF CANADA LIMITED